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Federal Pay: FY1999 Salary Adjustments

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ABSTRACT

This report analyzes the pay adjustment that Federal employees are to receive in fiscal 1999 under P.L. 101-509, the Federal Employees Pay Comparability Act. The Employment Cost Index-based annual adjustment and locality-based comparability payments are discussed. Legislation to modify the conditions under which the President could change the recommended pay adjustments is pending in the House and Senate. This report will be updated periodically. For more from CRS, see the *Guide to CRS Products* under Government Employees.

Federal Pay: FY1999 Salary Adjustments

Summary

Federal white-collar employees are to receive an annual pay adjustment and a locality-based comparability payment, effective in January of each year, under Section 529 of P.L. 101-509, the Federal Employees Pay Comparability Act (FEPCA). Although federal pay adjustments are sometimes referred to as cost-of-living adjustments, neither the annual adjustment nor the locality payment has anything to do with living costs. The annual adjustment is based on the Employment Cost Index (ECI), which measures the change in private sector wages and salaries. The ECI requires a 3.1% increase in January 1999. The size of the locality payment is determined by the President and is based on a comparison of non-federal and General Schedule salaries in 32 pay areas nationwide. The Federal Salary Council and the Pay Agent have issued their recommendations on the 1999 locality payments. If 70% of the target pay gap between these salaries is made up in 1999, as required by FEPCA, the increase in locality payments would range from 7.95% in the "Rest of the United States" pay area to 17.70% in the San Francisco pay area, and would be 10.46% in the Washington, DC, pay area. The nationwide average net pay increase, if the ECI and locality-based comparability payments were granted as required by law, would be 12.75%.

The Council's memorandum to the Pay Agent states that the credibility of the locality pay program is suffering because the small amount of money allocated for locality pay combined with changing the pay gaps each year leads to results that are hard for many to understand and accept. Among its recommendations are that the Pay Agent recommend and the President adopt the FEPCA requirement for eliminating 70% of the target pay gaps in setting January 1999 locality rates. Another recommendation is that, if an alternative plan is issued, instead of applying a uniform phase-in factor across-the-board to all localities, the increases would be based on the size of the pay gap in each locality. Areas with gaps larger than the average target gap would get bigger increases whether the gap had increased or decreased since the previous report.

President Clinton proposed a 3.1% pay adjustment for federal employees in his FY1999 budget. This amount is the overall average increase, including locality pay adjustments. Section 644(d) of H.R. 4104, Treasury, Postal Service, and General Government Appropriations Bill, 1999, as reported to the House, would provide an annual pay adjustment of "3.1 percent, unless otherwise provided for" under 5 U.S.C. 5303. Incorporated at section 644(a)-(c) is the text of legislation, H.R. 3251 and S. 1679, introduced by Representative Steny Hoyer and Senator Paul Sarbanes, respectively, which would modify the conditions that must be met before the President could issue alternative plans for the annual and locality-based comparability pay adjustments. The standard for issuing an alternative plan would be "a declared state of war or severe economic conditions." The latter would be considered to exist if, during the 12-month period ending two calendar quarters before the date as of which the adjustment is scheduled to take effect, there occur two consecutive quarters of negative growth in the real Gross Domestic Product.

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Federal white-collar employees are to receive an annual pay adjustment and a locality-based comparability payment, effective in January of each year, under P.L. 101-509, the Federal Employees Pay Comparability Act (FEPCA).[1] Although federal pay adjustments are sometimes referred to as cost-of-living adjustments, neither the annual adjustment nor the locality payment has anything to do with living costs. The annual adjustment is based on the Employment Cost Index (ECI), which measures the change in private sector wages and salaries. The ECI requires a 3.1% annual pay adjustment in January 1999. The size of locality payments is determined by the President and is based on a comparison of non-federal and General Schedule salaries in 32 pay areas nationwide. The Federal Salary Council and the Pay Agent have issued their recommendations on the 1999 locality payments. If 70% of the pay gap between these salaries is made up in 1999, as required by FEPCA, the increase in locality rates would range from 7.95% in the "Rest of the United States" pay area to 17.70% in the San Francisco pay area. In the Washington, DC, pay area, the increase in the locality payment would be 10.46%. The nationwide average net pay increase, if the ECI and locality-based comparability payments were granted as required by law, would be 12.75%.[2]

President Clinton proposed a 3.1% pay adjustment for federal employees in his FY1999 budget. This amount is the overall average increase, including locality pay adjustments. Before the budget proposal was announced, four federal employee unions proposed, in a letter to the OPM Director, that locality-based comparability payments of either 4.3% (over 4 years) or 2.8% (over six years) be granted each year. Section 644(d) of H.R. 4104, Treasury, Postal Service, and General Government Appropriations Bill, 1999, as reported to the House, would provide an annual pay adjustment of "3.1 percent, unless otherwise provided for" under 5 U.S.C. 5303. Incorporated at section 644 (a)-(c) is the text of legislation, H.R. 3251 and S. 1679, introduced by Representative Steny Hoyer and Senator Paul Sarbanes, respectively, which would modify the conditions that must be met before the President could issue alternative plans for the annual and locality-based comparability pay adjustments.

This report does not cover salary adjustments for federal officials, federal judges, or Members of Congress.[3]

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[1] 104 Stat. 1427.

[2] The new locality rate subsumes the old locality rate. These numbers do not reflect net pay raises.

[3] See: U.S. Library of Congress, Congressional Research Service, *Salary Adjustment Cost Estimates: Federal Officials, 1998 and 1999*, CRS Report 98-497 GOV; *Salaries of Federal Officials: A Fact Sheet*, CRS Report 98-53 GOV; and *Salary of the President*
(continued...)

In January 1998, federal white-collar employees received combined annual and locality pay adjustments ranging from 2.44% in the Indianapolis pay area to 6.52% in the Hartford pay area. The combined adjustment in the Washington, DC, pay area was 2.45%. The cost of both pay adjustments was about $2.2 billion dollars.[4]

FEPCA has never been implemented as originally enacted. In 1994, the annual Employment Cost Index-based pay adjustment was not provided and, in 1995, 1996, and 1998 reduced amounts of the annual adjustment were provided. For the years 1995 through 1998, reduced amounts of the locality payments were provided.

1999 Pay Increases

Federal white-collar employees are to receive an annual pay adjustment and a locality-based comparability payment, effective in January of each year, under Section 529 of P.L. 101-509, the Federal Employees Pay Comparability Act (FEPCA). The pay adjustment is calculated as follows. First, the basic General Schedule (GS) is increased by the annual adjustment percentage, resulting in a new GS schedule. These new basic GS rates are then increased by the locality payment. The resulting pay rates (annual + locality) are compared with the 1998 pay rates (annual + locality) to derive the net increase in pay for 1999.

Annual Pay Adjustment

Federal employees under the General Schedule (GS), Foreign Service Schedule, and Veterans Health Administration Schedule receive the annual pay adjustment. The President may extend the annual adjustment to the Senior Executive Service and Senior Foreign Service. Individuals in senior-level and scientific and professional positions may receive the annual adjustment at the discretion of agency heads. Annual adjustments for administrative law judges and contract appeals board members depend on whether Executive Schedule pay is adjusted.

Although the federal pay adjustments are sometimes referred to as cost-of-living adjustments, neither the annual adjustment nor the locality payment has anything to do with living costs. The annual pay adjustment is based on the Employment Cost Index (ECI) which measures change in private sector wages and salaries. Basic pay rates are to be increased by an amount that is 0.5 percentage points less than the

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[3](...continued)
Compared With That of Other Federal Officials, CRS Report 97-761 GOV, all by Sharon S. Gressle (Washington: May 26, 1998; Jan. 21, 1998; and Aug. 7, 1997), 6p.; 2p.; and 6p. See: U.S. Library of Congress, Congressional Research Service, *Salaries of Members of Congress: Current Procedures and Recent Adjustments*, CRS Report 98-44 GOV; *Salaries and Allowances: The Congress*, CRS Report 97-659 GOV; and *Salaries of Members of Congress: Congressional Votes, 1990-1997*, CRS Report 97-615 GOV, all by Paul E. Dwyer (Washington: Dec. 30, 1997; June 27, 1997; and Nov. 5, 1997), 20p., 13p., and 9p.

[4] For
Research Service, *Federal Pay: FY1998 Salary Adjustments*, by Barbara L. Schwemle, CRS Report 97-232 GOV (Washington: Jan. 8, 1998), 9 p.

percent by which the ECI, for the quarter ending September 30 of the year before the preceding calendar year, exceeds the ECI for that same quarter of the second year (if at all). The ECI requires a 3.1% annual pay adjustment in January 1999, which reflects the September 1996 to September 1997 change in private sector wages and salaries of 3.6% minus .5% which equals 3.1%.[5] The pay adjustment is effective as of the first day of the first applicable pay period beginning on or after January 1 of each calendar year.

The Federal Employees Pay Comparability Act (FEPCA) authorizes the President to issue an alternative plan calling for a different percentage than the ECI requires in the event of a national emergency or serious economic conditions affecting the general welfare. The alternative plan must be submitted to Congress before September 1 preceding the scheduled effective date.[6]

Locality-Based Comparability Payments

GS employees receive the locality-based comparability payments; the Pay Agent[7] may also extend those payments to employees in other pay systems including the Foreign Service, Senior Foreign Service, Senior Executive Service, and employees in senior-level, scientific and professional, administrative law judge, and contract appeals board member positions.[8] The locality-based comparability payments procedure was established by FEPCA. It provides that payments are to be made within each locality determined to have a pay disparity greater than 5%. When uniformly applied to General Schedule employees within a locality, the adjustment is intended to make their pay rates substantially equal, in the aggregate, to those of non-federal workers for the same levels of work in the same locality.

Under the law, the Bureau of Labor Statistics conducts surveys that document non-federal rates of pay in each pay area. The survey results are submitted to OPM, which serves as the staff to the Federal Salary Council and the Pay Agent. OPM documents federal rates of pay in each of the pay areas and compares non-federal and General Schedule salaries by grade for each pay area. The average salaries at each grade, both federal and non-federal, are then aggregated and compared to determine an overall average percentage pay gap for each area. By law, the disparity between non-federal and federal salaries is to be reduced to 5%. Therefore, the overall average percentage pay gaps for each pay area are adjusted to this level.

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[5] U.S. Department of Labor, Bureau of Labor Statistics, *Employment Cost Index-September 1997*, (Washington: Oct. 28, 1997), p. 12.

[6] 104 Stat. 1429-1431; 5 U.S.C. 5301-5303.

[7] The Pay Agent is comprised of the Secretary of Labor (Alexis Herman), Director of the Office of Management and Budget (Franklin Raines) and Director of the Office of Personnel Management (Janice Lachance).

[8] The President, by Executive Order, delegated to the Pay Agent the authority to extend locality-based comparability payments to certain categories of positions not otherwise covered. U.S. President (Clinton), "Delegating a Federal Pay Administration Authority," Executive Order 12883, *Federal Register*, vol. 58, Dec. 1, 1993, p. 63281.

Under FEPCA, as well, a certain percentage of the adjusted gap between General Schedule average salaries and non-federal average salaries in each pay area is to be closed each year. Twenty percent of the gap was closed in 1994, the first year of locality pay, as authorized by FEPCA. An additional 10% of the gap was to be closed each year thereafter. By January 1999, 70% of the gap is scheduled to have been closed. This percentage is applied to the adjusted percentage gaps in each pay area to determine the locality rates recommended by the Pay Agent to the President, after receiving advice from the Federal Salary Council.[9]

The pay gaps on which the locality payments are based are 22 months old by the effective date of the adjustment; i.e. March 1997 gaps determine the January 1999 locality payments. The Federal Salary Council and the Pay Agent have issued their recommendations on the 1999 locality payments; they reported that, as of March 1997, the overall gap between General Schedule average salaries and non-federal average salaries was 30.43%. The amount needed to reduce this disparity to 5%, as mandated by law, averaged 24.22% for 1999.[10]

The Council and the Pay Agent recommended locality payments ranging from 13.37% in the "Rest of the United States" (RUS) pay area to 29.76% in the San Francisco pay area; that recommended for the Washington, DC, pay area was 17.73%. Because the new locality rate replaces the existing locality rate, the change in locality rates is derived by comparing 1998 locality payments with those recommended for 1999. This comparison results in increases in locality rates from 1998 to 1999 of 7.95% in the "Rest of the United States" pay area to 17.70% in the San Francisco pay area. In the Washington, DC, pay area, the increase in the locality payment would be 10.46%. Table 1 shows the Council's and the Pay Agent's recommended locality payments for January 1999; the 1998 authorized locality payments; and the 1999 increase in locality payments. (1999 increase in locality payments = 1999 recommended locality payments minus 1998 authorized locality payments.)

The President's Pay Agent estimates that the cost of the January 1999 locality-based comparability payments will be $5 billion 410 million if 70% of the pay gap

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[9] The Council is comprised of nine members. Three members generally recognized for their impartiality, knowledge, and experience in labor relations and pay policy, are William J. Sheffield, Chair; Anthony F. Ingrassia, Vice-Chair; and Margaret A. Coil. The other six members represent the Public Employee Department, AFL-CIO (John F. Leyden); American Federation of Government Employees (Bobby Harnage); National Treasury Employees Union (Robert M. Tobias); National Federation of Federal Employees (Sheila K. Velazco); American Federation of Government Employees, AFL-CIO (Peter A. Tchirkow); and the American Nurses Association (Geri Marullo).

[10] Memorandum for the President's Pay Agent from the Federal Salary Council, *Level of Comparability Payments for January 1999*, (Washington: Oct. 27, 1997), 11p. (Hereafter referred to as *Level of Comparability Payments*.) and *Report on Locality-Based Comparability Payments for the General Schedule, Annual Report of the President's Pay Agent* (Washington: 1997), 24p. (Hereafter referred to as *1997 Pay Agent's Report*.)

is closed in January 1999 as required by FEPCA.[11] When added to the cost of the ECI-required 3.1% annual pay adjustment, the calendar year total cost amounts to over $8 billion dollars. Each ECI increment (such as an increase from 3.0% to 3.1%) and each locality pay increment (such as an increase from 0.5% to 0.6%) costs $108 million dollars on a calendar year basis and $81 million dollars on a fiscal year basis.[12]

The Council accepted the following recommendations from its methodology work group on locality pay:

- The Pay Agent should direct the Bureau of Labor Statistics to reinstate survey methodology previously approved by the Council and the Pay Agent. For surveys starting after October 1996, BLS switched to a new survey process. The resurveying of 15 pay areas to conform to methodology approved by the Council or the Pay Agent was not done; therefore, data from previous surveys had to be aged to March 1997. This resulted in surveys being an average of 10.9 months old as of the reference date of the pay gaps; March 1997. BLS was unable to collect any data for RUS and aged the entire RUS survey from its previous reference date of November 1995. Only half of the RUS data were actually new data in 1995 since half the 1994 sample was aged to reduce survey costs;

- The Pay Agent should recommend, and the President adopt, the FEPCA requirement for eliminating 70% of the target pay gaps in setting January 1999 locality rates;

- If an alternative plan is issued for 1999, locality rates should be determined by the size of existing pay gaps in the latest pay data rather than by questionable changes in pay gaps from the 1996 data to 1997. Instead of applying a uniform phase-in factor across-the-board to all localities, the increases would be based on the size of the pay gap in each locality. Areas with gaps larger than average would get bigger increases whether the gap had increased or decreased since the previous report. Areas with smaller gaps than average would get smaller increases. For example, if the alternative plan provided a 0.5% average increase, RUS with a target gap of 19.1% would get 0.7886% of the average increase, or 0.39%. Washington, DC, with a target gap of 25.33% would get 1.0458% of the average increase, or 0.52%;

- No changes are needed in the criteria for areas of application. New London, CT, should remain as an area of application to the Hartford, CT, pay area.[13]

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[11] 1997 Pay Agent's Report, p. 22. This estimate is for calendar year 1999, excludes the cost of benefits affected by a pay increase, and covers only the General Schedule and pay plans receiving locality pay by action of the Pay Agent.

[12] U.S. Office of Personnel Management, Workforce Compensation and Performance Service, Office of Compensation Administration. The calculations are based on an approximate FY1999 payroll with benefits of $108 billion dollars.

[13] *Level of Comparability Payments*, p. 7 and U.S. Federal Salary Council, *FSC Work*

(continued...)

> As in previous years, Santa Barbara County CA, and a portion of Edwards Air Force Base are included in the Los Angeles pay area, and St. Mary's County MD, is included in the Washington, DC, pay area. Areas with pay gaps below the pay gap in RUS will receive the same pay adjustment as RUS. Therefore, Indianapolis, Kansas City, and Orlando will be included with RUS in 1999.

FEPCA provides the President with the authority to fix an alternative level of locality-based comparability payments if, because of national emergency or serious economic conditions affecting the general welfare, he considers the level that would otherwise be payable to be inappropriate. At least one month before those comparability payments would be payable, he must prepare and transmit to Congress a report describing the alternative level of payments he intends to provide, including the reasons why that alternative level is necessary.[14]

Blue-collar workers under the Federal Wage System (FWS) receive a prevailing rate adjustment tied to the federal white-collar pay adjustment.[15] Special rate employees, including those receiving law enforcement officer special rates, receive either the special rate or the locality payment, whichever is higher.

Federal employees in Alaska, Hawaii, and outside the continental United States receive a cost-of-living (COLA) allowance rather than locality pay.[16] Approximately 44,000 white-collar federal employees, including Postal Service employees, receive the allowance. OPM, on May 1, announced that the survey upon which the allowance is based will be conducted in the summer of 1998 by the research firm, Joel Popkin and Company. The survey will cover a random sample of 9,000 employees in the nonforeign COLA areas (Alaska, Hawaii, Guam, the Commonwealth of the Northern Mariana Islands, Puerto Rico, and the U.S. Virgin Islands). It will also cover 4,000 employees in the Washington, DC, area because, according to OPM, "the District of Columbia is, by law, the reference or base area for computing the allowance." The prices of approximately 200 items, including goods and services, housing, transportation, and miscellaneous expenses, will be

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[13](...continued)
Group Report, (Washington: Oct. 14, 1997), 5p.

[14] 104 Stat. 1429-1436, as amended by 106 Stat. 1355-1356 and 1360; 5 U.S.C. 5301-5302 and 5304-5304a.

[15] Section 614 of H.R. 4104, Treasury, Postal Service, and General Government Appropriations Bill, 1999 continues this provision.

[16] 5 U.S.C. 5941 note, as amended by P.L. 105-61, provides that the allowance cannot be reduced through December 31, 2000, and mandates that OPM propose adjustments to the methodology to Congress by March 1, 2000. OPM is to study the issue and submit a report to Congress proposing appropriate changes in the method of fixing compensation for affected employees, including any necessary legislative changes. The study will include an examination of the pay practices of other employers in the affected areas; a consideration of alternative approaches to dealing with the unusual and unique circumstances of the affected areas, including modifications to the current methodology for calculating allowances to take into account all costs of living in the geographic areas of the affected employee; and an evaluation of the likely impact of the different approaches on the government's ability to recruit and retain a well-qualified workforce.

surveyed in each of the allowance areas and in Washington, DC. Information about the nonforeign area cost-of-living allowances is on the Internet at the following web site address: *http://www.opm.gov*.

Despite concerns expressed by the Clinton Administration in 1993 that the methodology for locality pay was flawed, no proposals have been made to change the federal pay law. A 1993 draft memorandum from the Pay Agent to the Federal Salary Council concluded that "the current methodology is flawed because the completeness of the data varies greatly among survey areas, because the gaps are not credible in light of other labor market indicators, and because the single percentage adjustment for all jobs in a locality is a poor reflection of market realities."[17]

According to the Federal Salary Council, "the credibility of the [locality pay] program is suffering because the small amount of money allocated for locality pay increases (0.6% of payroll in 1995, 0.4% in 1996, 0.7% in 1997, and 0.5% in 1998) combined with changing the pay gaps each year leads to results that are hard for many to understand and accept. This is especially true for 1998, when employees in the Rest of U.S. pay area will receive a higher net pay raise than employees in a number of locations with much bigger pay gaps, including the Washington, DC, pay area, due to fluctuations in the pay gaps and only 0.5% of payroll authorized to fund locality pay increases."[18]

The Council's memorandum also states that the Pay Agent's staff and the Bureau of Labor Statistics (BLS) are not in agreement on the workability and acceptability of new BLS surveys and this circumstance further erodes the credibility of the locality pay program. This was evidenced at the April 16, 1998, meetings of the Federal Salary Council and the Pay Agent. At the morning meeting of the Council, its methodology work group reported its findings on the new BLS survey methodology for locality pay and recommended that the survey methodology not be accepted.

According to the work group, the methodology does not meet the requirements of FEPCA. Additionally, "the error rate in assigning work levels (and eventually GS levels) to survey data is unacceptably high ... . Every indication is that the results will fluctuate from location to location and from year to year by much greater amounts than experienced under the current system."[19] Specific concerns, as summarized from the work group's report to the Council, include the following: (1) whether the new approach meets the requirements of title 5 on requiring comparison of General Schedule pay rates with rates of pay of non-federal workers at the same levels of work within each pay locality, and on the role of the Council in regard to the coverage of BLS surveys; (2) significant pay inversions in the data where the average salary for a work level was higher than the average for the next work level; (3) a job

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[17] Draft memorandum from the President's Pay Agent to Anthony F. Ingrassia, Acting Chairman, Federal Salary Council, [March 1993].

[18] *Level of Comparability Payments*, pp. 5,6.

[19] Report of the FSC Work Group Meeting, February 12, 1998, as submitted by Tony Ingrassia, Chairman. Provided by facsimile to CRS by OPM's Office of Compensation Administration, May 4, 1998.

mix that varies among locations and would vary from year to year within locations; (4) difficulties in constructing an adequate cross-walk between federal job series and the census occupation codes used by BLS to group non-federal data in the surveys; (5) possible over representation of female-dominated low-paying jobs that are numerous in the private sector, but not in the federal government; (6) an effect of the new survey on the pay gap that seems to vary by area and likely would vary from year to year, and pay gaps that are reduced, sometimes by as much as half; (7) lack of data at higher grade levels; and (8) lack of data for specific occupations.[20]

OPM, in a March 1998, letter to BLS, emphasized similar concerns about the survey methodology. First, OPM,[21] in reporting that the Council "question[s] whether these surveys meet the legal requirement that pay comparisons be made for the same levels of work, [noted that] errors of only one grade can significantly affect pay gap results because Federal average salaries vary by 6 to 20 percent from one grade to the next. Errors of two grades, where Federal pay may vary by as much as 45 percent, could have an even more pronounced effect on the pay gaps." Second, with regard to BLS' experimental efforts to account for supervisory duties, OPM staff believes that, "It is inappropriate to base the assignment of supervisory points on the supervisor's level in the organization without reference to the base level of work supervised." Third, OPM staff "found it inherently difficult to create an adequate "crosswalk" between the General Schedule classification system and the census job titles used" by BLS. Cited as an example was the occupation called Inspectors and Compliance Officers, Except Construction, which is matched with General Schedule jobs with "vastly different backgrounds and job requirements." Fourth, OPM staff is concerned about the pay disparities among areas that result from application of the methodology. "Most locations show changes well outside the annual fluctuations in pay gaps seen to date under the locality pay program. [OPM staff's] preliminary analysis of the 15 pilot surveys indicates that San Francisco shows an 11-point increase in the pay gap, while Detroit shows a 10-point decrease."[22]

According to the BLS, its survey methodology complies with FEPCA and it stands behind the survey results published to date. As to the first concern, BLS noted "that there is nothing in [the methodology] that precludes field economists looking at other grades in a job series or looking at a job's position in the organization's structure. We ... have revised our data collection procedures to encourage our staff to view sampled jobs in the context of related jobs." As to the second concern, BLS "agrees that more than the supervisor's position in the organizational hierarchy needs to be considered in the evaluation of supervisory duties." The agency looks forward to working with OPM in figuring out how to assess the type and grade level of subordinate employees. As to the third concern, BLS noted that OPM staff "matched virtually all Federal workers to [the methodology's] job categories," and that the richness of the data yield would permit some jobs to be deleted from the "crosswalk"

[20] *Ibid*.

[21] OPM serves as staff to the Federal Salary Council and the Pay Agent.

[22] Letter to Katharine G. Abraham, Commissioner, U.S. Bureau of Labor Statistics from Henry Romero, Associate Director for Workforce Compensation and Performance, U.S. Office of Personnel Management, Washington: Mar. 11, 1998, 5p. (Hereafter cited as *OPM Correspondence*.)

if OPM believes they should not be matched to federal occupations. As to the fourth concern, BLS stated that the underlying salary data produced by the new methodology is very similar to that produced under the current methodology. "A simple average across the 15 cities of the pay comparisons made [by OPM staff] shows that [under the new methodology] nonfederal salaries were 34.33 percent higher than Federal pay; the comparable figure ... from the Pay Agent's 1997 Report was 33.59 percent." BLS also believes that the new "method of replacing one-fifth of the establishment sample in each locality each year will result in more stable survey estimates than the [current] approach of completely replacing a locality's sample every 2,3, or 4 years."[23]

The Council agreed to the working group's recommendation that the survey methodology not be accepted and presented its decision to the Pay Agent at an afternoon meeting the same day. The Pay Agent did not act on the recommendation. Before it reports to the President on the FY2000 locality pay adjustment, it must make a decision on the BLS survey methodology. OPM's Associate Director for Workforce Compensation and Performance has informed the BLS that, "We believe both a literal and common sense reading of the statute lead to the conclusion that BLS is obligated to follow the instructions of the Pay Agent once a final decision is made."[24] In response, the Associate Commissioner for Compensation and Working Conditions at BLS asserted: "In our view, the BLS role is to design and execute surveys to meet the needs defined by the Pay Agent. We do not believe that Congress intended for BLS to function strictly as a 'job shop' for the Pay Agent, but that BLS was expected to use its judgment to assure that the surveys it conducted were objective and employed the best statistical techniques available."[25] BLS asked OPM to work with it in addressing the concerns about the new methodology.

FY1999 Budget Proposal

President Clinton proposed a 3.1% pay adjustment for federal employees in his FY1999 budget.[26] By law, the President must submit an alternative plan(s) to Congress if the pay adjustment differs from the ECI-based annual adjustment and/or the Federal Salary Council/Pay Agent locality payment recommendations. The ECI requires an annual pay adjustment of 3.1% in 1999, the size of the pay increase recommended by the President. Since the budget states that the proposed 3.1% is the overall average increase, including locality pay adjustments, an alternative plan for the annual adjustment would be required by the end of August 1998, and an alternative plan for the locality payments would be required in November 1998.

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[23] Letter to Henry Romero, Associate Director for Workforce Compensation and Performance, U.S. Office of Personnel Management from Kathleen M. MacDonald, Associate Commissioner for Compensation and Working Conditions, U.S. Bureau of Labor Statistics, Washington: Apr. 2, 1998, 8p. (Hereafter cited as *BLS Correspondence*.)

[24] *OPM Correspondence*, p. 2.

[25] *BLS Correspondence*, p. 7.

[26] U.S. Executive Office of the President, Office of Management and Budget, *Budget of the United States Government Fiscal Year 1999*, (Washington: GPO, 1998), p. 29.

Prior to the budget proposal, four members of the House Committee on Government Reform and Oversight sent a letter to President Clinton urging him to "includ[e] the maximum authorized comparability adjustment in your FY1999 budget."[27] In December 1997, four federal employee unions, in a letter to Office of Personnel Management Director Janice Lachance, called for the Administration "to address the heretofore unaddressed real and/or imagined flaws in the pay setting methodology, and pay federal employees on a basis that they can understand."[28] The unions--National Treasury Employees Union, American Federation of Government Employees, Public Employee Department of the AFL-CIO, and National Federation of Federal Employees--proposed that locality-based comparability payments of either 4.3% (over four years) or 2.8% (over six years) be granted each year, in addition to the ECI-based annual adjustment.[29] They stated their belief that an alternative plan should not be proposed, but said that, if one were to be proposed, the locality payment should be no less than 2.8%. According to the unions, "If an agreement could be reached to pay at least a 2.8% average locality adjustment for 1999 and 2000, we would be willing to continue working with the Administration to address concerns regarding the methodology of the current pay surveys with a commitment to finding a consensus methodology before 2001."[30]

105th Congress Legislation

Section 644(d) of H.R. 4104, Treasury, Postal Service, and General Government Appropriations Bill, 1999, as reported to the House, would provide an annual pay adjustment of "3.1 percent, unless otherwise provided for" under 5 U.S.C. 5303. The bill was reported from the Committee on Appropriations (H. Rept. 105-592) on June 22, 1998, and is expected to be considered by the House in July 1998.[31] Incorporated at section 644 (a)-(c) of H.R. 4104 is the text of legislation, H.R. 3251 and S. 1679, introduced by Representative Steny Hoyer on February 24, 1998, and Senator Paul

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[27] Letter to President William Jefferson Clinton from Representative Henry Waxman, Representative Elijah Cummings, Delegate Eleanor Holmes Norton, and Representative Harold Ford, Jr., Jan. 28, 1998, 2p.

[28] Letter to the Honorable Janice Lachance, Director, Office of Personnel Management from Robert M. Tobias, National President, NTEU; Bobby Harnage, National President AFGE; John Leyden, Secretary-Treasurer, Public Employee Department AFL-CIO; and Al Schmidt, Acting President, National Federation of Federal Employees, Dec. 3, 1997, 4p. (Hereafter cited as *Union Letter*.)

[29] *Union Letter*, pp. 2,3. The 4.3% recommendation was calculated as follows: 24.22% average pay gap minus 6.94% average 1998 locality payment equals 17.28% deficiency; to close the pay gap by 2002, 17.28% divided by 4 years equals 4.3% per year. The 2.8% recommendation was calculated as follows: 24.22% average pay gap minus 6.94% average 1998 locality payment equals 17.28% deficiency; to close the pay gap by 2004, 17.28% divided by 6 years equals 2.8% per year.

[30] *Union Letter*, p. 3.

[31] U.S. House Committee on Appropriations, *Treasury, Postal Service, and General Government Appropriations Bill, 1999,* Report to Accompany H.R. 4104, H. Rept. 105-592, 105th Cong., 1st Sess., (Washington: GPO, June 22, 1998), p. 110.

Sarbanes on February 25, 1998, respectively, which would modify the conditions that must be met before the President could issue alternative plans for the annual and locality-based comparability pay adjustments. Current law at 5 U.S.C. 5303(b)(1) and at 5 U.S.C. 5304a(a) would be amended to authorize the President to issue an alternative plan calling for a different percentage than the ECI requires in the event of a declared state of war or severe economic conditions. (Current law specifies a national emergency or serious economic conditions affecting the general welfare.)

New language, specifying that "severe economic conditions" would be considered to exist if, during the 12-month period ending two calendar quarters before the date as of which the adjustment is scheduled to take effect, there occur two consecutive quarters of negative growth in the real Gross Domestic Product, would be added as a new paragraph (4) to 5 U.S.C. 5303(b), and as a redesignated subsection (b) to 5 U.S.C. 5304a. According to the statements introducing the bills, this is the definition of recession most commonly used by economists. A technical amendment to 5 U.S.C. 5303(b)(2) would insert "economic conditions for purposes of this subsection" in lieu of "an economic condition affecting the general welfare under this subsection."

The new standards would apply to any alternative plan taking effect after 1999.[32] The American Federation of Government Employees, Federal Managers Association, National Federation of Federal Employees, National Treasury Employees Union, and Professional Managers Association endorsed H.R. 3251 and S. 1679.

Legislation to amend the overtime pay system for federal structural firefighters is included as section 639 of H.R. 4104. The Federal Firefighters Overtime Pay Reform Act of 1998 is based on a proposal submitted to Congress by OPM on June 4, 1998. (Similar overtime pay provisions are expected to be included in civil service reform legislation to be introduced shortly by Representative John Mica.) Among the changes to the overtime pay system proposed by OPM are these: "the basic pay of firefighters would be treated as basic pay for a 53-hour weekly tour, while standby pay would be eliminated. Work hours above a 53-hour threshold would be overtime hours, paid at one and one-half times the firefighter's hourly rate of basic pay."[33]

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[32] As originally introduced in the Federal Pay Fairness Act of 1998, the new standards would have applied to any alternative plan taking effect after 1998. Additionally, the bills would have provided as a transition, a revised deadline for submitting an alternative plan for the January 1999 annual pay adjustment; it would have to have been submitted to Congress by December 1, 1998 (current law specifies before September 1). Any alternative plan or report for the locality-based comparability payments taking effect after 1998 would not have been implemented if based on the standards in effect prior to enactment of the legislation. Such plan or report would not have precluded the submission of any other plan or report according to the provisions of the bills.

[33] Letter to the Honorable Newt Gingrich, Speaker of the House of Representatives, from Janice R. Lachance, Director, Office of Personnel Management, June 4, 1998, p. 1. Accompanied by a six-page legislative proposal.

Other Views

Quit rate data is sometimes examined when federal pay adjustments are discussed. The overall federal quit rate[34] declined from 4.3% in FY1987 and FY1989 to 2.4% in FY1992-1994, and FY1996, but increased to 2.5% in FY1995 and to 2.6% in FY1997, about 60% of the 1987 level. Comparing just the FY1987 and FY1997, quit rates by occupational category show the following: for professionals, it has declined from 4.1% to 2.6%; for administrators, it has declined from 2.1% to 1.6%; for technicians, it has declined from 4.3% to 3.0%; for clericals, it has declined from 7.4% to 4.2%; and for all other occupations, it has declined from 6.6% to 3.8%.[35]

Occupations having quit rates higher than 5% in FY1996 include Patent Examining (5.04%), Aircraft Operations (5.08%), Computer Engineering (5.17%), Dental Assistant (5.25%), Office Automation Clerk (5.29%), General Education (5.31%), Health Aid (5.31%), Pharmacy Technician (5.44%), Computer Science (5.76%), Pharmacist (6.17%), Clerk Typist (6.25%), Medical Clerk (6.38%), Education and Training Technician (6.98%), Practical Nurse (7.54%), Financial Institute Examining (8.37%), Nurse (8.61%), and Securities Compliance Examining (9.09%).[36]

A reporter for Scripps Howard News Service, using OPM payroll data, compared federal General Schedule salaries for 1992 (before the National Performance Review (NPR)) with those for 1996 (after NPR). The following summarizes his research findings, which were published in a *Washington Times* newspaper article,[37] and OPM's response.[38]

- The federal payroll for salaries and benefits grew from $93.7 billion (covering 2.2 million civilian employees) to $101.4 billion (covering 1.9 million civilian employees). According to OPM, its "figures show that Federal payroll costs increased by 46.9 percent from 1987 to 1996, but most of this increase occurred during the first 5 years of that period, when total Federal payroll costs increased by 35.9 percent. If Federal payroll costs had increased from 1993 to 1996 at the same rate as from 1987 to 1993, the total Federal payroll

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[34] The quit rate is the percentage of Federal employees who quit their jobs during any given year for reasons other than retirement, involuntary separation, or transfer to another Federal agency.

[35] U.S. Office of Personnel Management, Office of Workforce Information, *Quit Rates by Fiscal Year for GS and Equivalent Pay Plans* (Excludes seasonal, on-call, and student trainees), 1p. Sent to CRS by facsimile on May 6, 1998.

[36] U.S. Office of Personnel Management, Office of Workforce Information, *Selected Occupations With Higher than Average Quit Rates*, 1p. Sent to CRS by facsimile on May 6, 1998.

[37] Hargrove, Thomas, "Reinvention leads to fatter salaries for federal workers," *Washington Times*, Feb. 9, 1998, p. A4.

[38] U.S. Office of Personnel Management, Office of Workforce Information, *Trends in Federal Salaries, Payroll Costs, and Quit Rates Since 1987*, March 9, 1998, 7p. Sent to CRS by facsimile on March 17, 1998. (Hereafter cited as *OPM Response*.)

would have been about $113.8 billion in 1996, instead of $101.4 billion. This represents an estimated savings of about $12.4 billion (about 12.2 percent of actual 1996 payroll costs). Clearly, the Clinton Administration's downsizing efforts have resulted in a substantial decline in the rate of growth of the Federal payroll."[39]

- The total number of employees in GS grades 12, 13, 14, and 15 increased by several thousand from 1992 to 1996. CRS research using OPM's *Pay Structure* report shows that, from March 31, 1992 to March 31, 1997, the number of employees at GS-12 declined by 5.3%, at GS-13 increased by 0.6%, at GS-14 declined by 19.4%, and at GS-15 declined by 9.2%.

- The average General Schedule grade rose from 8.9 in 1992 to 9.4 in 1996. OPM responds that "From the beginning of the Clinton Administration until 1997, OPM's figures show that the overall average GS grade did increase slightly from 9.2 to 9.4. However, this is part of a long-term trend. From 1987 to 1997, the overall average grade increased from 8.5 to 9.4. ... Though there probably has been some "grade creep" during this period, the higher overall average grade is primarily a function of a demonstrable shift from lower-graded clerical jobs to higher-graded jobs in the Federal job mix."[40]

- The average GS-15 salary increased by 15.1% and the average GS-1 salary increased by 12.5% from 1992 to 1996. Over the same period, merit raises increased from 4.2% to 5%. OPM says that "The reference to merit increases appears to be a reference to average step position within a grade. If the average salary for employees at a given grade level has increased slightly faster than the inflation rate during the past few years, this is at least partially attributable to the fact that, in an era of downsizing, few new workers are hired at entry salary levels, while those who remain are advanced to a higher rate within their grade at regular intervals. ... A more apt comparison would be between (1) increases in the scheduled rates of pay (plus locality payments since 1994) for employees at grade GS-9 (the current average GS grade) and (2) increases in nationwide average employment costs, as measured by the Employment Cost Index for civilian white-collar workers, excluding sales (ECI). ... From 1987 to 1997, the rate of pay for GS-9, step 5, increased by 3.6 percentage points less than the ECI. In other words, GS pay increases have fallen slightly behind increases in nationwide average employment costs since 1987."[41]

Commenting on the newspaper article, the Director of the National Performance Review, Morley Winograd, said that the President's Management Council is reviewing overall reinvention plans to make sure they still follow the goals of the

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[39] *OPM Response*, p. 2.

[40] *OPM Response*, p. 1-2.

[41] *OPM Response*, p. 1.

NPR for streamlined government and will report on their evaluation at the April 1998 meeting.[42]

[42] Telephone conversation with CRS, Mar. 10, 1998.

Table 1. Federal Salary Council's and Pay Agent's January 1999 Recommended Locality Payments

Pay Areas	1999 Recommended Locality Payments	1998 Authorized Locality Payments	Point Increase in Locality Payments
Atlanta	14.57%	6.18%	8.39%
Boston	21.01%	8.61%	12.40%
Chicago	22.93%	9.21%	13.72%
Cincinnati	17.89%	7.71%	10.18%
Cleveland	16.81%	6.35%	10.46%
Columbus, OH	16.67%	6.90%	9.77%
Dallas	16.80%	6.90%	9.90%
Dayton	14.34%	6.19%	8.15%
Denver	20.78%	8.46%	12.32%
Detroit	22.90%	9.36%	13.54%
Hartford	21.29%	9.13%	12.16%
Houston	28.55%	11.96%	16.59%
Huntsville	13.94%	5.84%	8.10%
Indianapolis	13.37%	5.63%	7.74%
Kansas City	13.37%	6.06%	7.31%
Los Angeles	24.71%	10.31%	14.40%
Miami	19.38%	7.86%	11.52%
Milwaukee	16.25%	6.19%	10.06%
Minneapolis	17.79%	7.32%	10.47%
New York	23.40%	9.76%	13.64%
Orlando	13.37%	5.42%	7.95%
Philadelphia	18.84%	7.67%	11.17%
Pittsburgh	13.88%	6.21%	7.67%
Portland, OR	18.81%	7.17%	11.64%
Richmond	14.62%	6.12%	8.50%
Sacramento	18.70%	7.64%	11.06%
St. Louis	13.64%	5.71%	7.93%
San Diego	20.17%	7.94%	12.23%
San Francisco	29.76%	12.06%	17.70%

Pay Areas	**1999 Recommended Locality Payments**	**1998 Authorized Locality Payments**	**Point Increase in Locality Payments**
Seattle	18.43%	7.34%	11.09%
Washington, D.C.	17.73%	7.27%	10.46%
Rest of the U.S.	13.37%	5.42%	7.95%
Average	16.95%	6.94%	10.01%

Source: Memorandum for the President's Pay Agent from the Federal Salary Council, *Level of Comparability Payments for January 1999*, (Washington: Oct. 27, 1997), p. 9 and *Report on Locality-Based Comparability Payments for the General Schedule*, *Annual Report of the President's Pay Agent* (Washington: 1997), p.18. Point increase in locality payments = 1999 recommended locality payments minus 1998 authorized locality payments.